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City of Berkeley



Eugene "Gus" Newport
MAYOR

Office of the Mayor

June 11, 1985

TO: CITY COUNCILMEMBERS
PLANNING COMMISSIONERS

FROM: MAYOR EUGENE "GUS" NEWPORT

SUBJECT: ECONOMIC DEVELOPMENT CONSULTANTS

I am forwarding for your review the draft report of the City's economic development consultants. This report is the basis for discussions I am having with the City Manager and the consultants on economic development staffing for the city to be included in the 1985-86 budget.

Additional material from the consultants will be forthcoming and I will share that with you as it becomes available. I encourage you to share your thoughts with me on the general approach suggested by this draft report as soon as it is convenient. The consultants are also available for additional discussions as needed.

Action Recommendations
for Berkeley Economic Development

by

Neil S. Mayer


and

Lenny Goldberg

DRAFT, May 3, 1985

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A. Introduction

Berkeley is in the unique position of having a basically sound economy, a strong set of general goals and visions for economic development, and a very limited ability to implement programs to take advantage of both its visions and its strength. It is the purpose of this report to suggest to the City how it may make much better use of its potential, consistent with its goals.

By many comparative measurements which can be applied to cities, the Berkeley economy is relatively strong. Commercial vacancies in all but a few areas are low; commercial rents are rising rapidly as the pressure for space intensifies. Very little land is vacant, and commercial and industrial buildings which go out of use are relatively quickly sought or converted for other uses. Office space is in short supply and new office development is either under construction or has been proposed. In general, Berkeley's economic problems--and they are real--are not caused by lack of interest by private investors.

Rather, the problems include persistence of unemployment and underemployment, particularly among minorities and youth; the shortage of stable, well-paying jobs for displaced former industrial workers and their families; the persistence of decay and underdevelopment in certain neighborhoods, particularly in South-Berkeley; the displacement of neighborhood-serving small businesses; the need to generate revenues for housing and social services; deteriorated and inadequate infrastructure for sewage, parking and transportation; and mis-utilization of valuable land and other resources.

The question is how to use the tremendous resources of this community to make the economy serve people. Development does not mean growth of any kind; rather, it means discovering how to direct the wealth which we can create from our resources in a way which distributes benefits broadly--and particularly to those most in need--and which improves our quality of life.

Such an approach is reflected in part by the interest which Berkeley has demonstrated in small, locally-owned businesses, and in alternative community-serving organizations such as cooperatives and worker-owned businesses. It is also reflected by the growing interest, on the part of the Council and the community, in seeking out and targetting those forms of economic development which add positively and beneficially to our social wealth.

The problem is that the City's current economic development activities constitute neither the coherent strategy nor the more comprehensive program necessary to shape economic development to meet our needs. While the city has articulated some general goals, it has no consistent procedures with which it evaluates private development proposals; it has few direct program tools at its disposal with which it influences the process of economic

The first part of the paper is devoted to a general survey of the literature on the subject. It is found that the majority of the studies have been concerned with the effects of the various factors on the rate of growth of the population. The results of these studies are summarized in Table I.

It is seen from Table I that the rate of growth of the population is generally higher in the tropical countries than in the temperate countries. This is due to a number of factors, including the high birth rate, the low death rate, and the high rate of immigration. The rate of growth of the population is also higher in the countries with a high level of economic development than in the countries with a low level of economic development.

The second part of the paper is devoted to a detailed study of the factors which influence the rate of growth of the population. It is found that the rate of growth of the population is influenced by a number of factors, including the birth rate, the death rate, and the rate of immigration. The birth rate is influenced by a number of factors, including the level of economic development, the level of education, and the level of health care. The death rate is influenced by a number of factors, including the level of economic development, the level of education, and the level of health care. The rate of immigration is influenced by a number of factors, including the level of economic development, the level of education, and the level of health care.

The third part of the paper is devoted to a study of the effects of the various factors on the rate of growth of the population. It is found that the rate of growth of the population is generally higher in the countries with a high level of economic development than in the countries with a low level of economic development. This is due to a number of factors, including the high birth rate, the low death rate, and the high rate of immigration.

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development; its implementation of specific development projects has been slow or, often, non-existent; and it has not clearly identified the directions it would like the city's economy to take.

As a result, the perspective of city policy to proposed projects has been reactive, often in response to disturbing trends in the economy or on a project-by-project basis. In order to take advantage of the potential strength of the economy, and target the type of development which Berkeley desires, the City must instead take a pro-active stance with regard to development. Such a stance involves more than waiting for development proposals to come in; rather, it means asking the questions: what would we like to see and what strategies do we have for getting there?

In Section B of this report, we outline the types of tasks which the city could undertake in order to implement its broadly defined goals and visions for economic development. In summary, it should:

1. develop a consistent development review process for major private projects which helps us meet our goals;
2. create ways of ensuring that employment goals are being met, and that development is sought which is consistent with these goals;
3. provide means of assisting small and alternative businesses;
4. identifying and pursuing new financing instruments and sources of development finance; and
5. incorporate economic development goals into area planning and provide means to turn the plans into specific action.

In section C, we discuss the levels of effort (staff and consultants) needed to perform these tasks; and in Section D we outline where the expanded functions might be located within the City structure.

Sections A, B, C, D represent work jointly done and conclusions jointly arrived at by the two consultants. Section E provides further detail on the rationale for and substance of certain tasks outlined in section B, prepared by consultant Neil Mayer. Parallel material from consultant Lenny Goldberg will shortly be forthcoming.

The first part of the report is devoted to a general survey of the situation in the country. It is followed by a detailed account of the work done during the year.

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B. Key Tasks in an Economic Development Work Program.

1. Review and Decision Making for Major Private Development Proposals

In the last several years, an increasing number of large private non-residential developments have been undertaken or proposed in Berkeley, both new construction and intensive re-use of existing space. With an already crowded city, policy-makers want to ensure that any further development provides substantially for jobs for those in need; for revenues to cover costs projects impose (including strains on infrastructure, transport, and housing); and for further funds or direct action to meet housing, public service, and other needs. While recent zoning changes bring more potential projects under discretionary review, the City does not yet have clear standards for them to meet in terms of such economic development goals nor a systematic process for obtaining, implementing, and enforcing agreements with developers about the contributions projects will make. With more projects continually on the way, the City should, as a high priority, undertake the following tasks.

- a. Assess whether current zoning brings major projects under review and make any necessary changes. After many recent zoning revisions, in response to earlier projects approved with little review, a brief overall analysis of coverage is warranted to ensure that the City has power to accept or reject substantial projects.
- b. Establish standards for what developers must do to meet economic development objectives and integrate them into zoning ordinances as appropriate. The City has requirements or guidelines for building scale, parking provision, and the like but must now set standards for jobs, special payments to the City, or similar economic contributions to be considered in deciding on project approvals (or by developers in designing projects).
- c. Set up monitoring and enforcement mechanisms to see that hiring standards, cash payments, traffic and housing mitigations, and other commitments to the City are adhered to after project approval.
- d. Provide for a specific individual to be a clear point of contact for developers and to aid in the review process and for clear information about steps in the process of considering applications. Developers need accurate information about project standards and how to meet them.
- e. Work and negotiate with individual developers to reach specific agreements, especially since some project standards will no doubt be flexible.

In addition, programs will have to be established to help make review standards workable, notably including ways to funnel workers in preferred hiring categories to developments or provide lower cost housing using developer resources. The hiring issue is noted further under Employment (subsection B.2. below).

Additional discussion of review and shaping of private development is contained in section E.1. of this report.

2. Employment

It is a key goal of all economic development policy to make sure that the employment benefits of new projects are targetted for those who have the greatest need for stable, well-paying employment. Thus one of the significant tasks is to make sure that employment goals exist not just on paper but are translated into program can be implemented and enforced. Within this function are four broad categories, as follows:

a. Development of employment programs and policies which can be utilized by employers to implement the employment goals of development agreements.

The process of negotiating agreements with developers with regard to employment will be made significantly easier, and will work significantly better, if the city is able to help establish positive programs which implement compliance with employment goals. The city will need to stimulate or help develop programs, and/or contract with community-based non-profits for such programs as first-source hiring, transitional employment, and on-the-job training. This task involves coordination with current city employment programs and community-based non-profits to put the proper mechanisms in place.

b. Development of enforcement mechanisms which make sure, on an on-going basis, that employment goals are being met.

One of the most difficult problems of implementing employment agreements is on-going compliance and enforcement, particularly for permanent jobs with future tenants and sub-tenants. One task will be to develop a realistic set of mechanisms, working with programs established above and the city's contract compliance capability, to maintain on-going employment commitments.

c. Integration of projected economic development with job training

This function involves coordination of current job training contracts maintained by the city with projected opportunities from economic development. So far, the City's job training programs have received little information about what jobs may be expected from future economic development activity. Insofar as the job training programs can train people in advance for future expected jobs, ability of the city to coordinate development with job training will greatly improve the effectiveness of both.

d. Strategic targetting of employment-generating sectors.

In order to generate the type of employment which serves the city's policy goals, the city will need to assess the job content of different types of new businesses and may be able to target firms in certain sectors which help meet its goals. This strategic planning function, while focused on employment, will be most effective if done concurrently with the improvement of the development review process, above, in terms of helping develop standards for development and identifying the types of investment we desire.

3. Protection and Support for Small Private Businesses and Alternative Forms of Enterprise

Berkeley's private economy is composed predominantly and increasingly of conventional small businesses; it has a relatively substantial component of alternative (non-profit, cooperative) enterprises as well. The ability of the economy to provide basic needed goods and services, jobs, and tax revenues--and to meet such special societal goals as recycling "profits" back into the community or involving workers in management--is significantly dependent on the health of these sectors. The City has expanded its regulatory protections--controls over commercial rents and changes in use of commercial spaces--to some of these businesses; but it lacks a broader strategy for assistance and provides little direct aid. Principal tasks in this area include the following.

- a. Identify clear public objectives in aiding these enterprises and their principal problems and needs for assistance. Establish basic priorities in terms of who to aid (firms in what types of business, location, scale, or difficulty, in addition to strongly held present priorities for local-serving retail and South Berkeley) and the types of problems to address, based on this assessment.
- b. Determine any systematic needs for expanding regulatory protections or reducing unnecessary ones. This might for example mean protecting cheap incubator space for businesses other than the retail (C-1 district) firms that receive most protection now.
- c. Develop active (non-regulatory) programs to help small businesses with their needs for technical assistance, adequate capital, access to markets, affordable space, etc. and obtain funds for these purposes.
- d. Develop active programs of support for alternative enterprises. These will include adaptations of aid for conventional small businesses and programs directed to specific problems of alternative businesses such as acute difficulties in obtaining private capital.
- e. Implement the added programs of active support. Providing technical assistance, referrals, loan packaging, etc. can be major users of staff time or funding that must be explicitly provided for.

Each of these tasks is made more explicit and detailed in part E. of this report, in separate sections on small businesses (section E.3.) and alternative enterprises (section E.4.). Further note regarding a key need, for sources of private capital, is made in subsection B.4. immediately below.

4. Development Finance

In order to implement the pro-active stance called for in this program, the city must seek out all possible sources of financing which it can bring to bear on economic development. It needs these tools for several reasons: to be able to use its financial power for leverage in its dealings with proposed private development; to be able to finance socially desirable economic development projects directly; to be able to finance needed infrastructure improvements. The tasks are as follows:

a. On-going identification and analysis of potential development finance instruments

In a rapidly changing financial environment, the city must be able to explore a range of financial instruments such as credit enhancements, tax increment financing, short-term and variable rate financing, IDB's, etc, for its economic development needs. As economic development goals and projects become more focused, new financial strategies will have to be developed for implementation.

b. Structuring financial instruments

As financial instruments are identified as feasible and beneficial for specific projects, the city will need to structure its terms and conditions, and define its purposes, for the instrument. In particular, the city is likely to use in the near term Industrial Development Bonds, tax increment financing through redevelopment, and/or urban waterfront revenue bonds. While outside bond counsel and investment bankers inevitably play a major role in the use of these instruments, the city clearly must devote some resources to the development of these financial tools.

c. Seeking public funds

While federal and state sources of economic development money are more limited than in the past, there are still economic development programs which may have potential uses for small business assistance, cooperatives, infrastructure, re-training, or job creation. The tasks include maintaining continual contact with the potential programs which may be available, selecting those programs as appropriate to Berkeley projects, and making sure that the appropriate applications are put together.

d. Developing private financing for economic development initiatives

The city has long had under discussion, and will need to assess the feasibility of, a municipal bank or non-profit financial institution which serves socially-beneficial development finance purposes. The city can also help seek private funding for cooperatives, minority businesses, socially-responsible businesses, and employee owned businesses from a variety of sources, such as Local Initiatives Support Corp., Industrial Cooperative Assn., and various alternative investment groups. In addition, private foundation grant money may be sought to support these alternative enterprises.

5. Dealing with Economic Development in Area Planning

Berkeley is engaged in overall land-use planning in major areas of the City--areas in which policy makers and citizens have very substantial concerns about the potential for economic development and about its possible impacts. If economic development objectives are to be forwarded, along with other goals, in planning for specific locations, then the City must both learn how other land-use and zoning decisions affect economic outcomes (jobs, revenues, etc.) and select and carry out specific actions that can produce economic results called for in the plans. At present, City resources for bringing economic development into area planning in terms of analysis and action are quite limited. Major tasks that could profit from greater attention in each of the current planning areas include the following.

Analysis

- a. Define and clarify economic objectives for inclusion in overall planning criteria (for example, what types of targeted job goals might reasonably be sought, given an area's principal land uses and other constraints?).
- b. Assess economic impacts of land-use alternatives. When land-use decisions (about density levels or commercial vs. industrial uses, for example) are to be made in area plans, the Council and commissions should have information on how their choices will affect such things as types of jobs and amounts of revenue generated.

Action

- c. Design economic action plans for specific areas. If, for example, the Adeline/Ashby area is to be revitalized as an ungentrified, local-serving commercial center, the City must identify a set of feasible projects for attracting and preserving appropriate stores and a set of corresponding instruments (e.g. loan pools, real estate writedowns) that will produce those results.
- d. Undertake specific projects within the planning areas to implement the economic development aspects of area plans. An example might be the creation of an incubator business center serving young West Berkeley firms that agree to favorable hiring practices, using UDAG funds or similar mixed public/private approaches. Without action plans and project undertakings, economic results designated in zoning and land-use maps will often go unrealized.

Action-oriented tasks in c. and d. will draw on the whole range of programs for shaping private development, targeting employment opportunities, supporting small businesses, and obtaining needed funds whose development is discussed in points B.1. through B.4. above.

The issue of economic development in area planning is examined further in section E.2. below.

C. Level of Effort.

This section of the report estimates the levels of effort needed to carry out primary tasks identified in section B. Effort is measured in full time equivalent person-years (FTEs) for the five major task areas, potentially either staff or consultant time.

Suggested levels of effort should not be thought of as single numbers representing, in total, absolute requirements for an effective economic development program. Priorities can be set, among the broad task areas and within each of them, and we have suggested some rankings. Lesser priorities can be deferred until later years if budget constraints dictate, although each of the tasks identified deserves attention before very long. Furthermore, specific sets of tasks can be phased in. This will be natural for the several areas where programs are yet to be designed and full program and project implementation necessarily follows later. Potential for phasing is also indicated below in appropriate instances.

Nonetheless, the effort levels outlined here do correspond to establishing a relatively basic economic development program, given the major goals suggested by elected representatives and citizens, and given the gaps identified in meeting those goals with current City activities. We have already pared away from the numerical estimates potentially larger staff or consultant requirements that full-scale pursuit of multiple projects in each area might dictate. Instead we indicate where such larger efforts might be put to use if still more resources become available from the City or from successful pursuit of other public and private funds.

The indicated effort levels focus on work needed to fill substantial gaps in current economic development programs. We have assumed that certain current functions, if retained, would continue to be handled by staff in addition to those discussed here and have noted such instances in the text as well.

Levels of effort and associated priorities, phasing, and potential expanded implementation are presented in turn for each major task area below.

1. Review and Decision Making for Major Private Development Proposals.

We recommend at least 1.0 FTE.

This effort would be focused initially on establishing review standards and processes, enforcement mechanisms, etc. that should be in place for all future proposals. However, at the same time, additional effort to act as contact and negotiator on specific projects will be required, depending on the number and timing of major projects coming forward. A large number of projects could dictate greater staffing (and might be paid for by developer fees).

We consider providing for these tasks a first priority. Irrespective of which active public programs the City undertakes,

the ability to deal systematically with the continuing stream of private proposals should be provided for.

2. Employment.

We recommend 0.5 to 0.75 FTE.

The bulk of this effort (approximately 0.5 FTE or slightly less) would go to developing programs ensuring targeted hiring in major private developments and linking current job training and placement functions to opportunities created by other City business development activities. The remaining effort would be for analyzing which economic sectors might be targeted for encouragement because they provide promising job opportunities. While this analysis is potentially a less immediate priority, if done successfully it could be very useful in development review and area planning.

This work is in addition to current capability of community agencies and the employment staff in the City's Health and Human Services Department, who will remain responsible for implementing basic training and placement services within this expanded context.

3. Protection and Support for Small Private Businesses and Alternative Forms of Enterprise.

We recommend 1.0 FTE, but the appropriate level is contingent on other conditions.

We believe such a level of effort is needed principally to put into place active programs of support in these two related areas where they do not presently exist in a systematic way, along with a careful review of regulatory protection policy. Major implementation efforts in terms of direct delivery of technical assistance, loan packaging, or other projects would require further staffing, perhaps late in the year or the following year (moving staff from program development to delivery) as programs come on line.

If the existing Revolving Loan Fund is to be operated, with necessary technical support, that would require additional effort this year or a substantial slowing of new program development. Note also that we have assumed that implementation of commercial rent stabilization or similar protections (Telegraph, Elmwood, or elsewhere) would be handled by other staff.

4. Development Finance.

We recommend 0.8 to 0.9 FTE for a basic effort.

Approximately half of this effort would go for exploring and pursuing public sector sources of capital, including grants, bonding, redevelopment financing, etc. The other slightly smaller half would be directed toward generating private capital, including consideration of a municipal bank but also the range of

other possible foundation, responsible investment fund, and similar sources of financing for socially useful economic purpose.

This level of effort could be usefully expanded, or possibly contracted, depending on the number of initially feasible-seeming avenues for obtaining funds for identifiable projects. Expanded effort might be funded in part from its own successful results, or taken on sequentially in future years as projects arise.

5. Dealing with Economic Development in Area Planning.

We recommend at least 1.0 FTE for a limited effort, recognizing that a substantially larger effort is needed for planning and action in the whole set of areas now in, or suggested for, area plans.

A small (0.2-0.3 FTE) share would go for bringing economic development policy into the planning process and for assessing the economic impacts of land use options. The majority of effort would be in developing action plans and programs to achieve desired economic results agreed upon for planning areas. This overall function is a high priority.

The suggested level of effort has been selected as a starting place, given overall budget constraints and needs for other activities in 1-4 above. It will not, however, be sufficient, for dealing completely with more than perhaps two major planning areas, even drawing on the program work being done in 1-4. Developing area-specific actions for all areas would require additional staff/consultants.

Furthermore, as individual projects are selected for action, project managers will have to be provided, drawing either on current staff in Planning and Community Development or further additions. In at least some instances, project funding obtained outside the City will pay for some of these costs.

Phasing would be appropriate in both action planning and project implementation. But it is important to recognize explicitly that the suggested effort level falls short of what is optimal and should be expanded if constraints allow.

The levels of effort outlined in 1-5 total 4.3-4.65 FTEs. As already noted, this level could be phased in, with consideration to priorities. In generating an overall budget for economic development, additional funds would need to be included for support staff and for other purposes such as computer access, conferences and materials on current program developments, and perhaps contingencies for specialized short-term consultants. Note that capital funds for specific project and program implementation are not treated here.

D. Structure

Trying to locate these expanded economic development functions within the city staff structure involves solving a complicated and difficult puzzle of reconciling current staff constraints and organization with some newly defined needs.

1. Concepts

The following are some clear standards to use in deciding how to locate economic development within the city staff structure.

a. Interaction with Mayor and Council. The Mayor in nearly every city is viewed by the community and by potential developers as a key figure in setting economic development policies. The Mayor and Council will jointly be defining new economic development strategy in numerous areas, following the recommendations of this report. They must be able to work closely with and have access to economic development staff and consultants as they undertake policy and program design work, particularly in dealing with potential new development, while retaining consistency with the current City Manager form of government.

b. Interaction with various departments. Economic development functions are currently included in Planning and Community Development, Public Works, Finance, and Health and Human Services (Employment). Economic development staff must be able to coordinate and work closely with the efforts in all these departments.

c. Implementing ability and authority. In addition to policy and program development, the economic development staff must be able to oversee their translation into action. The economic development staff should not be free-floating, with undefined responsibilities and little ability to call on line staff.

2. Location of functions

Broadly, the functions of economic development staff can be divided into policy development, program design and management and coordination of activities, and nuts and bolts implementation of projects.

We believe these broad functions, and the tasks defined in the work program, can be carried out through some mix of the following three elements:

- a. Economic development coordination in the City Manager's office;
- b. Utilization of consultants on an on-going basis;
- c. A strengthened implementation unit.

Our view is that the criteria outlined above strongly suggest that a designated coordinator for economic development be

located on the City Manager's staff, rather than within Planning and Community Development--particularly to provide for interaction with Mayor and Council and other departments. With that position in place, several combinations of staffing, use of consultants, and stronger implementation capability could work satisfactorily.

Example #1. Consultants to Mayor and Council play significant role in policy development, along with economic development coordinator. Economic development coordinator in City Manager's office, with staff assistance, provides significant program, project design, planning and development review functions. Strengthened implementation unit of PCD carries out projects.

Example #2. Policy and program development in response to Mayor and Council takes place in the City Manager's office, led by economic development coordinator. Program coordination, project design, and implementation takes place in a significantly strengthened unit of PCD which combines redevelopment, conservation and development, and economic development functions. Consultants serve in policy development, technical, research, or project-specific roles, which may include strong hands-on relationship to development projects.

E. Detailed Rationale and Tasks for an Economic Development Program.

Section B. of this report outlined very briefly the key tasks to be undertaken in a more complete economic development program for the City of Berkeley. This section discusses at greater length the rationale for selecting certain of those tasks and supplies additional specifics about the work that would be involved and the programs and projects that could be produced.

This expanded discussion was prepared entirely by consultant Neil Mayer and covers those aspects of economic development for which he had responsibility under part 1 of his Scope of Services:

1. Review and decision making for major private development proposals.
2. Dealing with economic development in area planning.
3. Protections for and encouragements to existing small businesses.
4. Support for alternative forms of enterprise.

For each topic, the section:

- explains why the subject constitutes an important issue for action, given economic problems, conditions, and policy goals,
- describes current City functions and capabilities and significant gaps in them,
- discusses in greater detail the kinds of work that could be usefully undertaken, given gaps between current activities and goals (including tasks that will have to wait until later years), and
- summarizes the set of tasks involved in delivering desired results, including immediate and longer term actions.

It is on the basis of these more detailed considerations that the corresponding tasks and levels of effort for the current year in sections B. and C. were recommended. The specifics here also provide a more substantive beginning for program action if the City decides to move ahead in these areas, although much fleshing out remains to be done.

1. Review and Decision Making For Major Private Development Proposals.

Berkeley has become a "hot market" for non-residential development. In the past few years, a substantial number of office buildings have been constructed in the downtown area, warehouses in West Berkeley have been redeveloped for office and other higher intensity areas, and major new retail space has been added in areas including Shattuck and now Telegraph Avenues. The cumulative effects of these projects are large. A February Planning Division report shows, for example, that private (non-institutional) office space in the downtown area alone has more than doubled since 1968. More notably, one third of the growth, and thus more than one sixth of the current total space, is contained in buildings very recently completed or still under construction. Plans for further office construction in the central business district, for waterfront development, for re-use of sites such as the Colgate plant, and other private development or conversion are in varying but active stages of consideration by private investors and in some instances by the City in its review and regulatory capacities.

The strong market pressure for added development operates within an already densely developed, intensely used city. Berkeley has neither a significant amount of vacant land nor a great deal of "environmental room"--in terms of its ability to handle large additional amounts of traffic, parked cars, garbage, water and sewer usage, blocked sunlight, and the like--to support non-residential growth in scale or intensity.

At the same time, Berkeley has well-recognized needs that some types of further private development might help meet: needs for jobs, affordable housing, improved infrastructure, and revenues for these and other purposes.

Understandably, in this context of significant needs but limited willingness and ability to tolerate the negative impacts of expanded commerce, the Mayor and City Councilmembers have indicated (in forums including interviews conducted for this report's purposes) that they give very high priority to shaping carefully any large-scale private development that occurs. Specific development projects are desired to, in varying combinations, produce jobs especially for those with limited opportunity; provide sufficient revenues to offset their direct costs in terms of housing and infrastructure; yield further monies for housing, infrastructure, and other public purposes; directly provide housing or other needed space; and minimize or mitigate their other environmental impacts on transportation, etc.

Assuring that only such well-targeted development occurs on any substantial scale requires a City project review and decision-making process with several key characteristics.¹ These include:

¹ It is important to note that the review process alone may well be necessary but not sufficient to cause the development to occur.

- Bringing major proposals under review so that they can be shaped to meet City goals or rejected.
- Laying out clear standards for review and decision making that correspond to the range of desired project characteristics.
- Devising feasible means for developments to meet the desired goals.
- Establishing mechanisms to implement and enforce the standards set for approved projects.

The current Berkeley project review process does not yet meet these criteria. Recent changes have strengthened the system, and some further elements of change are already underway. But additional actions, specified later below, should be undertaken as a high priority, to deal systematically with the continuing flow of projects.

Current functions and capabilities

Berkeley has of course long had an ability to review proposed non-residential developments under its zoning ordinance. Until recently, the standards imposed in commercial and manufacturing districts were, primarily, limited restrictions on building scale and, even less extensively, building use.¹ A key fact is that only if these modest scale and use restrictions were proposed to be violated did discretionary review come into place, in the form of consideration of variances and use permits. Otherwise, projects could be and were approved ministerially by City staff, without consideration of their contribution to the kind of goals Berkeley policy-makers now express or of environmental mitigations. A number of still quite new downtown office projects qualified for this treatment, for example.

In the past three years, and especially in the past year, the set of new developments or use conversions to which City discretionary review applies has been significantly expanded. Major actions include:

- Approving interim development regulations for the downtown (C-2 district), and proposing new, smaller C-2 boundaries.
- Approving interim regulations for the manufacturing (M) district (at Planning Commission).
- Adding non-residential parking requirements.
- Passing the Neighborhood Commercial Preservation Ordinance (NCPO).

¹ Restricted limited industrial uses in commercial areas and regulated certain noxious uses.

- Undertaking zoning changes within Elmwood and North Shattuck neighborhood commercial areas, under NCPO directive.

One overall result is that any new development of over 10,000 square feet is now subject to discretionary review at the Board of Adjustments, even in the City's most permissive (C-2 and M) zones--sharply reducing the scale of development allowed ministerially. A second is that both new construction and change of use of more than small scale space is put under Board review in neighborhood commercial areas.¹ In both cases, use permits can be denied or conditions attached to them to reduce impacts deemed harmful. The current system therefore does bring most major projects under discretionary review, although the extent of coverage for use conversions is as yet less clear and complete² than for new construction. The current standards used for review of projects, however, have significant limitations. Their focus³ is on development impacts on parking, traffic, and urban design--important issues likely often given inadequate examination before the recent regulatory changes. But these considerations fall short of covering the broad range of concerns elected officials and involved citizens express about the shape of further development. Not yet in place are systematic standards regarding jobs, types of businesses, housing, infrastructure, and overall revenues.⁴

It is highly understandable that the broader range of issues has not yet been dealt with, in what in many cases are interim standards responding to recently intensified problems. Developing review standards regarding economic development issues, and practical means to implement them, is a major task for the future. The multiple components of that task are discussed in the next subsection.

Before turning to that analysis, a further note on the current permit and review processes is in order. Berkeley in many ways has a well-developed system for considering commercial/industrial (or other) proposals. Developers are directed to the zoning office for information about the requirements they must meet, where they can often obtain information about the aspects of their proposals that may trigger discretionary review. They are encouraged to meet early on with neighbors of their proposed sites in order to work out potential problems. Citizens retain well-defined public opportunities to oppose or support proposals.

¹ In North Shattuck and Elmwood, certain uses are restricted in number and require use permits to exceed defined levels regardless of size of space used.

² Outside of neighborhood commercial areas.

³ Especially for interim guidelines in the critical downtown and manufacturing areas.

⁴ The main "economic development" component given attention thus far is the protection of local-serving businesses, at points of conversion and use, in neighborhood commercial areas under NCPO and subsequent area plans in C-1 districts.

But City staff and Board of Adjustment members have identified some difficulties in the review process. The increase in and diversity of regulations and numbers of activities falling under them have made it more difficult for current staff to keep up with the workload and to assure that precise information is always available to applicants. Some increase in the time it takes for a proposal that needs Board review to reach its agenda has occurred. Additional zoning staff, designation of specific staff solely to answer questions at the zoning counter, and reducing some review of minor projects might well help resolve such problems. There have also at times been complications in ensuring that zoning and use permit conditions were enforced once construction proceeded, but new coordination procedures have been initiated. It is not a purpose of this report to analyze in full how current permit processes can be improved. What is important to recognize here, in devising new review of major development proposals in terms of economic development goals, is that consideration must continue to be given to practical matters of sufficient staffing, clarity of information, and follow-up enforcement, so that any new review standards can be efficiently implemented.

Filling gaps in meeting economic development goals and objectives

A substantial series of actions would need to be undertaken to give the City the systematic ability to shape new private development proposals to meet expressed economic development objectives. Broadly, these correspond to the criteria for an effective review and decision-making process summarized earlier:

- Ensuring that major projects come under review and cannot be approved without meeting goals for economic development (as well as other objectives).
- Establishing clear standards for approving (or disapproving) projects in terms of economic development (as well as other) costs and benefits.
- Actively making it possible for developers to meet these standards.
- Implementing and enforcing the standards for approved projects.
- Helping developers proceed through the project review process smoothly.

As indicated above, the City already is in position to review most major developments and to reject or attach some kinds of conditions to them where desired. This review "access" is one necessary condition for achieving cooperation with private developers in pursuing public goals. A modest further assessment of whether the full set of major construction and conversion projects of concern to policy-makers now comes under review would be

desirable, both immediately and in the longer term context of area plans and zoning ordinance revisions now being generated.

More substantial work is required to meet other criteria for a project review process that produces well-targeted development. Standards must be developed virtually from scratch regarding what economic results are expected from a project of given size or type. The question is: what combinations of such things as fees to cover infrastructure costs and offset housing market effects, delivery of job opportunities to those lacking them, revenues for housing or other services, sharing of ownership, transportation mitigations, and the like would make a project deemed worthy of approval? Such standards are needed both to allow and encourage people bringing proposals forward to design them to obtain approval¹ and to establish a basis for consistent decision-making by the Board of Adjustments or Council, based on publicly determined policy, in City reviewing of proposals. The City's current Environmental Impact Report process provides a basis, at least for large-scale projects, for studying a quite broad range of impacts (costs and benefits). But it is not designed to substitute for decision-making policy that indicates whether given impacts should lead to project approval, disapproval, or modification.²

The establishment of standards and requirements involves several subtasks. One is to estimate the additional costs that given development imposes on the City (e.g. for infrastructure) and on private citizens (e.g. in raised housing costs). Offsets to these costs can then be included automatically as required fees in approval conditions, without having to re-study the impacts in each case; and decision-makers can see more clearly what net benefits beyond such costs are being offered by a development. The current City effort to review its fee structure for new developments (fees for plan review, sewer hook-up, etc.) is a useful part of such an effort.

Other necessary work in standard setting includes:

- Devising reasonable standards for levels of expected project benefits, reusable from project to project. For example, what share of jobs going to unemployed or unskilled people is a realistic goal or requirement, given available information about job and worker characteristics?
- Determining which standards should be fixed (e.g. dollars per square foot) and which left to be flexibly negotiated, and laying out a negotiating process.
- Deciding how standards might be adjusted if the City

¹ Or to decide to seek exceptions or to drop proposals that clearly conflict with policy.

² Board of Adjustments Chair David Taylor indicates that Board members have diverse concerns about jobs, housing, etc. but would prefer not to set their own standards (ad hoc) and instead to receive Council policy.

assists a project and in what situations such assistance is warranted.

- Assessing how large a total of multiple public benefits a project can deliver without becoming financially unfeasible.
- Establishing acceptable tradeoffs between one kind of benefit or cost and another. For example, how if at all might a housing contribution be moderated for a project with very well targeted jobs? This task is eased to the extent that developers simply pay monies that the City can later allocate among multiple uses.

Besides setting standards, the City must act directly to make them more practical to meet. This in essence involves creating programs to work jointly with developers¹ to yield public benefits. For example, if standards are to be set for hiring certain groups of workers, the City could develop a training and referral service in cooperation with current job training agencies to funnel workers to new development in a coordinated way. That is, the City would take an active role in establishing a workable "first source" hiring mechanism. Or if housing requirements are to be set, the City might design a housing program that couples developer funds with other mechanisms to house lower income people.

In addition, effective monitoring, incentive, and enforcement mechanisms will need to be established to ensure that standards that are set for projects are actually met. That includes especially means to gain compliance with goals achieved over time (beyond construction) such as in permanent hiring. An example of such a mechanism is the establishment of a job fund, created with a developer's money and then credited back to the developer as job targets are met over time, as previously proposed for the City Center Hotel by Neil Mayer. Also needing development are systematic processes for monitoring progress toward other goals, obtaining cash payments when due as development proceeds, etc.

In sum, the City will be in position to reach development agreements for particular projects, specifying clear standards and fees and other requirements to be met, supportive programs to be used, and enforcement mechanisms. The agreements will combine mandatory items within zoning (or other) ordinances and negotiated items.

Once these steps have been taken, it will then be essential to make the entire process clear to potential project developers and easy and efficient for them to proceed through. Information should be readily available regarding both the standards and the steps in meeting them. A central staff person should have responsibility for working with people bringing forth substantial economic development proposals and moving them smoothly through project review, and proposers should be directed to him/her at

¹ Or with funds they provide.

the outset. The same staffer would have negotiating responsibilities for reaching individual development agreements. Again, staffing for application processing should be sufficient so that using new standards for consideration of economic development issues does not overwhelm other zoning review activities.

Finally, it must be recognized that private development initiatives will not necessarily come forward in every desired instance that meet effectively the City's multiple goals for economic development. Even with new standards for review in place, the City may well have to take a more active role in planning and assembling projects, using public powers and resources, to bring about the special projects that effectively meet economic goals. But a broadened system of review, standards, and implementation mechanisms for considering private development can certainly make a complementary contribution, shaping private projects and perhaps creating opportunities for joint public/private efforts.

Work program tasks

In sum, the tasks indicated in establishing a process for decision-making on economic development proposals include the following:

1. Assessing whether action is needed to bring additional construction or development proposals under discretionary review in terms of economic development objectives, and drafting any needed zoning revision.
2. Developing standards and requirements for use in reviewing and making decisions about project proposals, in terms of jobs, business activities, housing, and revenues as well as environmental impacts, and integrating the standards into the zoning ordinance as appropriate.
3. Creating City programs that facilitate developers meeting of new standards, especially in the field of targeted jobs, and/or programs that assist proposed developments that meet City economic development objectives especially well.
4. Establishing systematic monitoring incentives and enforcement mechanisms for agreements reached with and standards imposed on developers.
5. Setting up a system for processing applications under new standards, including naming a specific contact person to guide the process and providing clear advance information about steps and standards.
6. Working and negotiating with proposers of individual projects.

2. Dealing with Economic Development in Area Planning.

Berkeley is presently embarked on major overall land-use planning efforts in many parts of the City: South Berkeley, the downtown, West Berkeley, and the waterfront. Notably, these are areas where citizens have strong concerns about the prospects for and impacts of economic development. In interviews conducted to help prepare this report, elected officials indicated interest in revitalizing certain South Berkeley commercial areas as local-serving retail and service areas while avoiding driving out existing small businesses; in permitting some further development in the downtown if it pays its own costs, produces significant job and revenue benefits, and mitigates environmental impacts; and in strengthening and expanding the economic base in West Berkeley without disturbing its role as a provider of incubator and relatively cheap space and blue collar employment and without gentrifying or disturbing surrounding residential neighborhoods.

These are difficult and complex economic development objectives to meet under any circumstances. It is important that land use planning not proceed without careful consideration of how objectives of these kinds, as articulated by community residents and Mayor and Council, may be forwarded or impeded by land use and zoning decisions. And specific economic development strategies, program instruments, and projects must be devised and incorporated into the broader area plans and their implementation mechanisms if action to produce desired economic results is to proceed. Most aspects of economic development policy, strategy, and action are, after all, ultimately location-specific and cannot properly be pursued independently of other plans and actions for given areas.

At present, resources for integrating economic development concerns into area planning processes are fairly limited. Expanded effort of several kinds, specified later below, would be very desirable, especially as the planning efforts move toward consideration of concrete options and implementation mechanisms. Without active planning for economic development action, followed by specific project undertaking, the kinds of area-specific economic goals represented by potential land use plans, and by Mayor and Council priorities such as those summarized above, might well go unmet--because the land uses will not be realized in the form of successful enterprises, new jobs, and the like.

Current functions and capabilities

In general, the major area plans are far from complete, and the details of work programs for their completion, citizen preferences for issue priorities, and resources (staff and consultants) to be devoted are not fully set. Nonetheless, it does appear that resources for economic development policy and action planning are currently limited in relation to needs.

In waterfront planning, the large consultant contract does provide for establishing economic development criteria for considering alternatives and for assessing job and revenue impacts of the alternatives (although it seems not at least explicitly to

call for development of mechanisms to improve economic performance given levels of density and broad land uses). In the downtown, brief background studies have been prepared by staff and interns regarding changes in use of land devoted to various economic activities and to the kinds of businesses concentrated in the area (in terms of number of firms, and business tax revenues). In terms of more active consideration of plan alternatives, plans are for hiring a consultant to do a qualitative assessment of what types of further development are feasible or likely to occur and an again qualitative analysis of their economic impacts. Detailed assessment of how well various options serve economic development goals is not anticipated, although some information may be borrowable from the waterfront work and an environmental impact report will be prepared with respect to the new land use regulations that will be generated.

In South Berkeley, concentration has been on generating background information on a broad range of area conditions and on trying to encourage citizen involvement. And project-specific analysis has been done for the Berkeley Repertory Group project. A market study concerning Sacramento St. commercial potential was prepared by consultants, but it is not considered by staff to be a good basis for action. Plans are to obtain further consultant planning assistance in economic development in the future. The West Berkeley planning effort is in very early stages and has not fully laid out its approach to economic development issues.

Staff to take on economic development oriented work in the area planning process are in short supply. The current Planning Division staff does not include a planner whose specialty is in the economic development field or an economist or business analyst. Involvement in area planning by the Economic Development Division was a potential and anticipated alternative to such expertise within Planning. This involvement is not occurring in a substantial way currently, for a number of reasons including competing demands on staff time. Proposed Economic Development Division staff involvement for 1985-86 is apparently limited to review of area plans as they are generated. Funds for consultants are also limited, and citizens have sometimes pressed for priority attention to other kinds of issues with the staff and consultant resources available.

There is no reason to find fault with City staff for the area planning work as planned. Economic development objectives are being considered, along with and in tradeoff with other (housing, recreation, etc.) concerns for the same areas as they should be. The intent is present to reflect economic development concerns in ultimate plans and zoning regulation. And available resources impose major constraints. But there are substantial additional tasks that are important to undertake and for which it would be valuable to find funds and skills.

Filling gaps in meeting economic development goals and objectives.

To meet economic development objectives, it would be desirable to have knowledgeable economic development staff (or consul-

tants) participate in each area planning process where non-residential activity is prominent in at least five ways. These are, as explained further below:

- Defining economic goals.
- Assessing the impacts of land use options.
- Designing feasible strategies for economic development action.
- Establishing implementation mechanisms.
- Overseeing specific projects.

The first of these means being involved in helping citizens and policy makers establish economic development policy objectives for an area and in translating them into more specific desired outcomes. If, for example, a prime goal in one area is for jobs, economic development staff can help indicate initially what choices of objectives reasonably exist in terms of types and numbers of jobs, for which segments of the population, even for land uses that are as yet only broadly defined.

A second role is to analyze the economic impacts of specific land use alternatives as they are proposed in the process of planning: impacts in terms of jobs, revenues, etc. Only to the extent that decision-makers know differences in the likely economic results among land use options can they explicitly take economic development objectives into account. Such information should be generated in a way that it can later be re-used in assessing the impacts of major individual proposed projects within the planning area when they come up for consideration.

The remaining three roles for economic development expertise are more directly active and programmatic. It will often be necessary to devise action plans for non-residential areas based on economic considerations in order to achieve economic development goals. This is best understood in terms of an example. In the Adeline/Ashby vicinity, many Councilmembers indicated a desire to see a stabilized and expanded local-serving retail and service area, revitalized without pushing out existing local-serving stores and preserved for them and new additions of that type over the long haul. The desire for a revitalized commercial district is long-standing. But merely designating land uses and zoning for it will not produce it, given historic weakness in that market. Someone needs to analyze what kinds of stores and services must be attracted to create the critical level of activity that allows all area stores to succeed; whether attracting them is at all feasible; how large a commercial area can be sustained; what if any change in street configuration, or addition of dense neighboring residential uses or use of BART air rights is required to help expand shopping in the area; etc. and then prepare a specific commercial use plan based on that analysis. In essence, the City must perform, in behalf of its goals, the kind of action-oriented planning that a hypothetical private investor owning the whole commercial and surrounding area and

wishing to revitalize it might. Similar kinds of active planning could be necessary to reach identified goals in other areas.

An equally important role is the creation and/or identification of instruments for implementation of the economic development components of area plans. Continuing the South Berkeley example, City staff would need to put together programs using redevelopment or other powers and resources to attract key additional stores, securing property ownership or control to assure that local-serving stores are not pushed out by rising competition for space, providing for joint advertising to attract additional business, or similar efforts. Or in the downtown, where a goal is to target new jobs to groups of citizens with limited opportunities, economic development staff would, as discussed earlier, be involved in designing realistic job standards for new projects to meet, and first-source hiring, training and placement, and incentive and enforcement mechanisms to make it possible to meet that goal. These kinds of program instruments, not just zoning regulations, are necessarily important parts of implementation approaches for area plans.

Finally, economic development or associated staff will have to guide the undertaking of specific economic development projects--public or public/private--that are designated parts of area plans. These may but need not necessarily be undertaken only subsequent to the planning process and their undertaking is not ordinarily considered part of it, but they will be critical to plan implementation in individual instances. Projects might, for example, include bringing a general department store to downtown, developing South Berkeley BART air rights as offices and shops, or establishing an incubator business center in West Berkeley. Project implementation, as well as action planning, will necessarily draw on the range of programs for shaping private development, targeting employment, supporting small and alternative businesses, and obtaining public and private funds discussed elsewhere in this report.

The five roles for economic development expertise in area planning go beyond what is currently anticipated in ongoing planning efforts. Further resources will be required to assure that economic goals are both established in plans in concrete ways and, most importantly, met in action.

Work program tasks

1. Participating in West Berkeley area planning and plan implementation.
 - a. Defining and clarifying economic objectives
 - b. Assessing economic impacts of land use options
 - c. Designing feasible area economic plans for action
 - d. Putting implementation instruments into place

- e. Overseeing specific projects within area plan implementation
2. Participating in South Berkeley area planning and plan implementation.
a-e as in #1 above.
3. Participating in downtown area planning and plan implementation.
a-e as in #1 above.
4. Participating in waterfront area planning, with emphasis on c-e as in #1 above, given the role of current consultants.
5. Identifying other areas in which action planning and project development should be undertaken, such as rapidly changing locations like Auto Row.

3. Protections for and Encouragements to Existing Small Businesses.

Berkeley's private sector economy is primarily one of small businesses. The service sector, the City's largest and fastest growing employer, is dominated by small firms. The same is true for retail sales, the second largest private employer, where in addition the types of firms of largest size (including department stores and auto dealers) have been declining in relative importance. In manufacturing, where larger firms played their greatest Berkeley role, employment in smaller firms in newer product lines has been replacing work in larger chemical plants and other traditional subsectors. Inevitably, then, the health of the City's private economy and its contribution to meeting societal goals depend on the activity of small businesses of many kinds.

The Mayor and many councilmembers have stated a priority interest in protecting and encouraging existing businesses that are local-serving and/or locally owned. (These need not by definition necessarily be small enterprises; but again the bulk of them are.) Their several expressed goals in supporting these types of firms include providing basic goods and services to city residents; generating earnings for local citizens while retaining profits within the community for economic recycling; moderating the environmental impacts caused by attracting customers/clients from a wider region; and, potentially at least, getting good cooperation from small local businesses in reaching public objectives for hiring Berkeley people in need of work and the like.

Currently the City has a significant set of regulations for protecting certain existing small businesses from being dis-

placed. It has only very limited active programming to aid the enterprises' stability or growth or to pursue specific public goals through them. It would be valuable to develop a City strategy for assisting small businesses, identifying public purposes and main lines of action, and then to put in place¹ a more complete set of instruments for pursuit of the strategy.

Current functions and capabilities

The principal current actions of the city of Berkeley toward small businesses are regulatory functions, protecting certain businesses in certain locations from being displaced by market pressures for space. The Elmwood commercial rent regulations and the temporary restrictions in the Telegraph Avenue area offer direct protections to existing businesses that might be forced to move by rising space costs. The NCPO and new Elmwood and North Shattuck zoning restrictions implicitly protect existing businesses by making it more difficult for certain uses, especially non-local-serving, to obtain permission to operate and thus to have a basis for bidding away locations from their present occupant firms. Those same restrictions also increase the chances that departing local-serving businesses will be replaced by other local-servers.

Under all these regulations, it is basically certain types of retail and consumer service firms or specific neighborhood commercial areas that are benefited, with an apparent correspondence, though by no means a perfect one, to firms being of small size and local ownership. There are many other types of small existing businesses, at other locations in the city, some with needs different from or in addition to protection of their existing spaces. South Berkeley retail stores, suffering from weak neighborhood markets, are obvious examples.

While regulatory protection has grown recently in response to commercial and real estate market trends, programmatic assistance to small businesses from or through the city has not been a significant activity. The largest program in the past has been the EDA revolving loan fund--low interest loans to small South Berkeley firms. But problems in the administration of the program and in the quality and repayment performance of loans made have resulted in a two-year suspension of action within this program. Revisions have been made in program guidelines that may now allow resumption of loans, but the quantity of loans will be limited by the failure to gain repayments from a high percentage of past borrowers. An allocation of \$200,000 in CDBG money for loans to South Berkeley businesses has not yet been begun to be spent, while loan guideline review was underway.

In terms of technical assistance, the City at one time helped businesses package applications for loan assistance from the Small Business Administration (SBA) but now offers only more limited consultation and referral. The South Berkeley Local

¹ As the discussion below will detail, the instruments need by no means always involve direct City expenditures.

Development Corporation provides some technical assistance to businesses within its target area but has limited staff and a broad agenda.¹ Lack of technical assistance to accompany past EDA loans has been identified as a past problem. The City refers businesses in need of technical advice to the federal retired volunteer executives corps (SCORE) or to SBA workshops. Little staff time has been allocated in the recent past to either technical aid or referral activities.

Filling gaps in meeting economic development goals and objectives.

Given limited current programmatic functions, rapid change on the regulatory side, and public officials' broadly stated objectives for support of small business, development of a more deliberate and comprehensive strategy for protection of and assistance to these firms would be appropriate. The strategy should identify clearly the public purposes on which support of various kinds to various types of firms is to be based, assess the nature of assistance that is needed to fit those purposes and the firms' circumstances, identify actions to be taken by the City and potentially by other actors, provide for the creation of regulatory and program instruments, and indicate how meeting of public purposes will be ensured.

This report is not intended to lay out that strategy. We can however illustrate the kinds of issues that might be addressed and program components that might be developed.

In the regulatory area, at least two major topics of concern appear ripe for assessment. There are many classifications of small firms besides local-serving retail and service--including small manufacturing, crafts, and others. Some of these may be threatened by market pressures spreading to other industrial/commercial areas, in parts of West Berkeley especially. At the same time, not every local-serving business, or business currently in place in Elmwood, as examples, may be important to preserve in its current location, or indeed be preservable given changing demands for goods and services, management capabilities, etc. In the context of any expanded or time-extended regulatory actions (rent stabilization, use restrictions), careful policy consideration must be given to which businesses to protect and the reasons they are believed worth protecting. Regulatory instruments must then be designed to match those conclusions, allowing for both protection and change. Indeed, many councilmembers indicated that review of the basis for protection over the longer run was a high priority as they look ahead to regulatory decision-making. A second regulatory concern is the potential burden of administering additional regulations regarding business turnover--burdens for business and City staff. Mechanisms could be considered that exempt certain otherwise-controlled use changes from review unless a minimum level of opposition is registered or similar trigger points are crossed.

1. This report does not attempt to assess systematically the current capability of the SBLDC.

On the programmatic side, a policy review is also one order of business. Which types of existing businesses, for what reasons, and in exchange for what if any actions, should be given priority to benefit from limited City resources? Besides historic attention to businesses in South Berkeley's struggling commercial areas, shall it be firms with good local hiring records, those providing crucial services, etc.? Another key early task is at least a crude assessment of the kinds of needs various firms may have: for technical assistance, training, capital, space, markets, skilled workers, or other components of overall enterprise.

Within program components, tasks are to make practical choices of direction and then to set chosen programs in place. Considering first technical assistance, a great many types of management and other aid might potentially be provided. The City may directly supply those services, purchase them from others, expand its range of referral sources and referrals, sponsor expanded provision by a non-profit corporation, and/or concentrate assistance in connection with loans of City funds. Finding funds for any but the referral roles will be key.

In providing capital, the City has concentrated on low-interest EDA loans. Given extremely limited resources compared to potential capital needs, it might re-focus on technical aid to businesses for securing loans elsewhere or on securing funds it can borrow to relend. Or the City might act as a broker, helping groups of small businesses negotiate with lending institutions for better loan terms than are usually available to each one of them.

Protecting current store locations is not the only space issue potentially deserving attention. For example, small but growing businesses have indicated difficulty in obtaining appropriate quarters, and the City may be able to play a role with redevelopment or other less direct instruments in making such space available where a public purpose is served. Still other types of brokering functions might be pursued, such as working with the University to increase its purchasing from local firms as one among many potential market-generating activities.

The technical, capital, space and other assistance might be provided, along perhaps with advice on regulatory issues, in a one-stop business center within the City or a designated non-profit adjunct. Such a center might be additionally equipped to aid ailing businesses specifically, developing a range of instruments for assistance to firms that would be urged to come in sufficiently early for full consultation (contrast the recent Hinks experience). Or a business-incubation center might be established to provide shared technical and support services, cheap space and other needs of young firms in West Berkeley or elsewhere.

The small-business-specific effort should, whatever its ultimate details, be linked in two major ways to broader economic development planning and policy. The first link is to area planning, redevelopment planning, and associated activities. The problems for individual firms are often heavily determined by conditions outside them, as is especially apparent for retail businesses. It might be more important and efficient to recon-

figure roadways, to devise joint marketing and advertising strategies and security arrangements, or to attract new crowd-drawing tenants for the Adeline-Ashby area than to concentrate on low-interest loans to single firms in the neighborhood with a still-weak market.

The second critical link of small business support is to broad economic development goals: for jobs for specific population groups, recycling of incomes, needed revenues, etc. At each juncture, consideration should be given to how supportive action--either regulatory or programmatic--might be connected to specific progress toward goals. That could mean, for example, assessing how City-funded job training programs would efficiently be sources of labor to the multiplicity of small Berkeley firms. It could mean shaping parts of job training to that goal, reorganizing job placement functions, or introductory voluntary or mandatory links between protection and assistance to small businesses and their participation in meeting hiring objectives.

Work program tasks

The overall task is to develop and then implement a strategy for assisting small businesses within the city. Principal subtasks include:

1. Determining policy objectives in protection of existing small businesses and shaping regulatory instruments to preserve businesses consistent with these objectives, while relieving unnecessary review burdens.
2. Determining types or locations of priority businesses for active programmatic assistance and expectations for what assisted businesses will do in return.
3. Assessing types of assistance most needed.
4. Developing mechanisms for aid in terms of capital, technical assistance, space, markets, etc. with consideration of constraints in 5.
5. Identifying funding sources for those program mechanisms.
6. Implementing programmatic assistance. Note that this implementation may well be on-going, especially in South Berkeley, while the full array of components are put in place.

4. Support for Alternative Forms of Enterprise.

The Mayor and many Councilmembers have expressed interest in finding ways for the City to be supportive of businesses owned and run in ways different from traditional for-profit and hierarchical forms. Such alternative enterprises can include non-profit organizations controlled by boards of directors representing various elements of the community; worker-owned cooperatives (collectively or hierarchically managed); consumer-owned cooperatives; and publicly owned or controlled (in part, partnership, or full) enterprises.

A variety of benefits are anticipated by supporters (in Berkeley and elsewhere) of such alternatives. Among them potentially are improved working conditions and job satisfaction as a result of greater direct worker involvement and control; retaining of potential net "profits" within the community and use of them for better worker incomes and for reinvestment to create additional jobs and other benefits; focus on expansion and retention of employment when replacement of labor by capital is an option; greater freedom from the threat of enterprises departing for other locations; and more voluntary, active attention to social goals such as hiring and training workers with limited skills and opportunities, providing for consumer safety and health, and the like.

Alternative enterprises must be successful operations, producing and selling their goods and services and obtaining revenues sufficient to pay workers and other costs, to deliver any such benefits. Berkeley has a number of functioning enterprises of cooperative and other alternative forms and many citizens interested in them.¹ The City may be able to encourage their success, growth, and expansion in numbers with an active program of support that does not now exist. That will require development of programs attending to such enterprises' needs in common with traditional small businesses and their special needs arising from their alternative forms.

Current functions and capabilities

The City has not of course to date had a conscious economic development activity directed toward alternative enterprises. Certain specific actions not necessarily for economic development purposes have been in some way supportive of them individually, however, and they are suggestive of possible future actions. The City has pursued its goals for recycling by contracting in part with non-profit enterprises: with the Community Conservation Corps for buy-back and drop-off and with the Ecology Center for curbside pick-up. The contracts have supported direct employment on a modest scale in these enterprises in conjunction with other funds (for machinery, etc.) the organizations have leveraged. An initial contract with Adelante's maintenance/janitorial arm

¹ These include of course the Consumer Cooperative of Berkeley, Inc. foodstores and a number of smaller enterprises.

helped in that organization's effort to create continuing jobs as an extension of its training/placement activities and to try to build a source of revenue.¹ The City of course also funds numerous non-profit human service agencies but creates jobs only as a side result to service delivery. The SBLDC has been a city-funded non-profit intended to, among other things, create jobs but not within its own organization.

Energy is the area in which active City-supported planning has been done to jointly produce economic development and other desired results. Energy staff, consultant, and commission time has been spent developing plans for a non-profit Energy Services Organization (ESO). The ESO would both provide certain direct services in the fields of conservation and renewables and carry out facilitating functions that would help expand activities of other weatherization/renewables for-profit and non-profit firms. Economic development results would include especially job creation and job training in and outside the ESO. Proposed structure, likely activities, possible financing sources, and market analysis and business plans have been laid out in varying degrees of detail. It is intended that the City continue to cooperate with and aid the ESO in a variety of ways as it is spun-off as a separate non-profit.

Filling gaps in meeting economic development objectives

Given extremely limited current functions in this area, a basic task is to generate an overall strategy for and program of assistance to alternative enterprises. In substantial ways the necessary work is similar to the work involved in establishing a program of City support for conventional small businesses, discussed earlier in the report. The usually small alternative enterprises have many comparable needs for technical assistance, capital, affordable space, generation of markets for their products or services, and the like. The description of small business program alternatives to be considered, selected, and put into operation will not be repeated here.

There are however a number of additional tasks the City might undertake because of the unique characteristics of alternative enterprises. Such enterprises frequently have needs for specialized technical assistance from people knowledgeable about cooperatives or non-profits. For example, non-profits that want to take on profit-earning activities to support their operations may need legal assistance to avoid jeopardizing their tax status. Or workers in collectively managed cooperatives may need training in joint business-decision making. There are technical assistance providers experienced in working with alternative enterprises in particular on these and other problems (e.g. the Industrial Cooperatives Association, the Center for Community Change, the National Economic Development Law Center, as well as many individuals), and some foundations and other funding sources

¹ The controversy over service quality and further contract has no doubt not been helpful.

willing to support their use. The City should set up whatever technical assistance referral and funding functions it undertakes so that they provide access to such specific skills, not only to traditional small business assistance. The City could help arrange for continuing aid to alternative enterprises within its borders, rather than leaving each small organization to pursue its own aid, perhaps by working with a group of existing coops/non-profits to pursue a single technical assistance funding pool.¹

Obtaining needed capital on reasonable or often on any terms is consistently an extremely acute problem for alternative enterprises. Added to the usual problems of being small businesses are the disadvantages of convincing lenders or investors to finance unfamiliar types of organizations with legal and managerial structures that do not correspond to traditional investment and security criteria. The City could pursue two lines of assistance. One would be to direct available public capital--such as industrial development bonds or CDBG loan pools--at least in part toward alternative enterprises, as has not traditionally been done. The other is to help arrange for access to the special sources of private capital that might want to support making Berkeley a mecca for such businesses. These can include:

- Pools of capital already allocated for these purposes (nationally) such as the resources of the Local Initiatives Support Corporation or the Cooperative Assistance Fund, or the Industrial Cooperatives Association revolving loan fund.
- The traditional grant-making funds of interested foundations.
- Less-tapped sources such as funds from socially responsible money market funds or the investment portfolios of foundations.

The City could provide assistance and leadership in seeking capital pools to be shared by Berkeley enterprises (and then administering them), and set aside public technical and financial resources to combine with the private and make their use more feasible. This pooling effort would complement assistance in the form of providing access, referral and advice to individual enterprises seeking funds on their own.

The City could play a unique role as facilitator of conversion of conventional businesses to alternative forms when private owners choose to close them. Emphasis on setting up readily accessible pools of technical and capital assistance could again be helpful because efforts to start fundraising from scratch in converting individual businesses frequently take too long to save them.

¹ It would probably not, on the other hand, be desirable to restrict the set of technical assistance providers to a narrow pool, but rather to allow organizations to pick advisers to meet their own needs.

In addition, the City can investigate the feasibility of developing a municipal or community-owned bank or similar financial institution, as a mechanism for funnelling the private capital or ordinary citizens and businesses to alternative enterprises, and other socially productive uses. Such a bank, perhaps modeled on Chicago's South Shore National Bank, could also serve other important economic development purposes--for example financing City participation in revenue-earning joint public/private projects or helping for-profit firms that commit to desired hiring and training goals finance expansion. Capital access is consistently a key constraint in many of the economic development objectives otherwise sought, and such an institution could be fashioned to open many opportunities. Financing can certainly be at the center of any rapid expansion of alternative enterprise, as it has been for the hugely successful Mondragon cooperatives.

Initial tasks are to assess financing roles and powers the institution should have to fill unmet needs (lending only to certain businesses, to consumers, etc.), legal constraints, possible formal structures, requirements and sources for start-up capital and management skill, and the ability of a bank to be self-supporting while taking on its social lending roles. Consideration should also be given to whether other ways to obtain private capital short of a new "bank" can substitute for it.

Finally, the City could work actively with individual alternative enterprises that serve other important goals to help them expand their job-creating roles, following the model begun with the Energy Services Organization effort. City efforts on multiple fronts--technical assistance, capital access, providing a market, etc.--could be focused on specific "projects"--for example, on aiding the expansion of non-profit recycling efforts to produce more jobs while reducing the waste stream.

Potential City action in aiding alternative enterprises and accessing private capital, including through a bank, will be discussed in some further detail in a later memorandum under this contract.

Work program tasks

The overall task is to design and implement a program of City support for alternative enterprises, beginning nearly from scratch. Key subtasks include:

1. Adapting small business support and protection programs for use by non-profits and cooperatives.
2. Identifying the special needs of alternative enterprises, especially in technical assistance and capital financing, and developing programs targeted specifically to them. Includes emphasis on attracting private capital.
3. Undertaking a feasibility study for a municipal bank or similar institution.

4. Implementing a program for support of alternative enterprises city-wide and for specific public-purpose-related businesses (e.g. energy conservation/renewables or recycling).

Additional support material

The following three sections have been submitted by Lenny Goldberg as an explanation of some of our recommendations for the preceding economic development program. This material describes both current efforts and identifies the gaps in current programs concerning:

- a. the link between city employment efforts and economic development
- b. the city's current efforts with regard to strategic planning for economic development
- c. the city's use of available state and federal resources for development finance

These sections also include some policy suggestions which will require further discussion and elaboration.

Linking Employment Programs with Economic Development

Employment for those in need of jobs is the primary goal of the economic development process. This goal is particularly important for minorities, women and youth, for whom unacceptably high rates of unemployment persist. The employment problem for those without substantial technical and/or professional education has become particularly severe as the result of the decline of the East Bay Industrial Belt, in which substantial numbers of jobs have been lost in relatively well-paid, unionized positions. The closure of the Colgate-Palmolive plant and the loss of several hundred jobs has been the most obvious manifestation of that problem in Berkeley.

Current programs

The Job Training Partnership Act (JTPA) is the recent incarnation of federal personpower policy which is designed to train people for stable jobs in the new workforce. JTPA is administered through local service delivery areas (SDA's) the definition of which comes from the state, according to specified criteria. Berkeley was formerly a prime sponsor, eligible for money and program administration, under CETA (the previous employment and training program), but, unlike Oakland, was not designated as a Service Delivery Area under the JTPA. Instead, Berkeley, along with Albany and Emeryville, is part of the Alameda County SDA, run by ACTEB, the Alameda County Training and Employment Board. However, Berkeley continues to administer its own programs as a prime contractor with ACTEB, in an agreement which lasts two years and will have to be renewed again in 1986.

Berkeley then subcontracts its allocation through to community agencies, including the Bay Area Urban League for skills training, the Veterans Assistance Center for on-the-job training, and Adelante, the Women's Employment Resource Corporation, and the Sacramento-Ashby Improvement Corporation for job development, job readiness, and job placement activities. It also contracts for basic skills and remedial services through the Adult School (BUSD), Adelante for English as a Second Language, and Inter-City Services, which serves out-of-school black youth.

The city's allocation is a function of a formula which determines its share of the SDA funds. This coming year it is expected to be \$640,000, down over \$100,000 from the past year, plus another \$300,000 for summer youth employment. The program serves approximately 340 people per year, with 64% percent of the money going to youth. Skills training provides about 70 slots (though the numbers are inexact), which includes computers, electronics, welding and clerical training. The skills training programs can be flexible: the East Bay Skills Center, which does the bulk of the training on contract, states that it can design

its training programs as demanded.

According to the Dept. of Health and Human Services, which administers the contracts, these programs have been relatively successful in placing people in jobs. The job placement, job readiness, and job development programs in particular are relatively inexpensive, involving shorter-term programs, and provide an entry point into the labor market for those who need such assistance. The on-the-job training program, run by the Veterans Assistance Center, appears to have a long-standing and successful relationship with employers with whom they place individuals.

Links with economic development

The concern here is to examine the extent to which employment and training programs have been linked with economic development. Whatever the current effectiveness of programs, all job training programs have the potential problem of training people for jobs which do not exist. Both Contra Costa and Alameda Counties, among many other localities, have attempted to link their job training efforts directly to the process of economic development. Berkeley has had few such links, which is in large part a function of the nature of past economic development efforts. From the perspective of the administrators of the job training programs, these programs are highly motivated to connect their clients with economic development.

These links can take several forms. One involves direct agreements with new development for making a good faith efforts to hire a targetted group (first-source and other hiring agreements). A second involves basic sharing of information which relate the skills for which people are being trained to the economic development directions which are taking place, and which directly improves the effectiveness of the training. A third involves strategic targetting which attempts to define and encourage certain directions for the economy, as a means of generating the desired employment.

Currently, some of these links have begun to be made. The new developer at Colgate hired youth from Adelante for maintenance and clean-up, in large part because of recommendation from the city. The city has attempted to negotiate hiring agreements from developers in new downtown developments, although the effect of one such agreement, at the City Center Hotel, appears to be limited as a result of the loss of an expected UDAG grant.

Another current effort is the study to assess hiring practices at many different businesses in the city, not only new development. This study, initiated by the city's contract compliance officer, is attempting to gauge the extent to which the city's businesses hire minorities, and has requested data on

the occupational structure of Berkeley businesses. Such information should help provide the basis for a stronger understanding of the varying employment potential of different kinds of Berkeley businesses.

However, as noted, the links with economic development efforts are limited. One limitation is the lack of clearly defined mechanisms for implementation of hiring agreements. The city does have job training agencies and programs which could potentially become the basis for a first-source hiring agreement, in which the developer agrees to make a good faith effort to hire those potential employees who are referred by the specified agencies. The better developed and more specific the program--e.g. construction apprenticeship for building, clerical for offices, etc.--the greater the chance of success and, crucially, the stronger the ability to enforce the agreement. The task is twofold: developing a clear understanding of the jobs to be filled from the economic development side; and making sure that the agencies not only have an opportunity to refer but are able to follow through with sufficiently trained people to make sure that the new jobs go to those who need them. Without the direct ability to provide potential employees to new developments, hiring agreements are likely to exist primarily on paper.

Another gap in the current relationship is the lack of flow of economic development information to the job training programs. Bay Farm Isle in Alameda contacted Berkeley's programs relative to future bio-technology development, but otherwise the approaches have been few. As the city develops its strategic targetting capabilities, and has a clear sense of its ability to negotiate agreements with developers involving hiring, the information with regard to the future direction of jobs should be made continually available to the job training programs. This is not an abstract concept: San Jose's Center for Employment and Training maintains a continually interactive relationship with the Silicon Valley firms with which it places its workers. No such relationships appear to exist with current employers in the East Bay.

Another way of making this link, which the city has so far not explored, is the use of state Employment Training Panel (ETP) funds. ETP is funded out of the State Unemployment Insurance Fund, and provides funds directly to employers for training, much of it on-the-job. There is \$55 million available statewide each year, and, since it is paid for by employers, it directly subsidizes employer training costs for about \$3000 per worker. Cities need not be the contractor for these funds, but they can broker these funds as part of hiring agreements by establishing a working relationship with ETP contractors, and assist employers in finding the employees to be trained. One such agreement to use ETP for 100 workers will increase the job training money available in the city by 50%. It will also mean a substantial increase in one of the most effective forms of

training--On-the-Job Training, which is only in limited use in Berkeley.

One other area to explore is providing direct employment assistance to welfare recipients, through the use of a transitional employment program which utilize welfare grant diversion, JTPA funding, and employer contribution for intensive job-related training. Berkeley's program administration argues that it is inappropriate to distinguish between welfare recipients and other types of job seekers. Politically, the point is well-taken; on the other hand, the availability of the welfare grant and the ability to target tangible benefits to welfare recipients specifically may make this approach worth exploring.

Strategic planning/ strategic targetting

The process of strategic planning is often undertaken by cities in order to assess their resources and determine a focus for their economic development directions. In particular, the primary goal of strategic planning is to generate the economic base in particular sectors which will create the types of employment desired. The status of Berkeley's strategic planning efforts can be summed up in a word: non-existent. There has been no functional effort to set a strategic direction which can serve as the basis for policy and action.

Past efforts

Berkeley has had some economic development planning efforts in the past, which led to the development of a draft Berkeley Economic Development Plan in 1978. The policy recommendations of that plan were focused on the revitalization of downtown, and, in general terms, encouraged research and development for new industries. While many of the policies proposed were unobjectionable, and some have been implemented indirectly (or inadvertently), that plan provides little in the way of direction for the current Berkeley economy. In particular, it says little about the sectoral composition of Berkeley's economy and about the composition of the workforce.

A study which generated useful planning data was done in 1981 by Markusen, Jones, Leigh-Preston, and Mayer, called The Berkeley Economy: the Prospects for Economic Development Planning, for the Institute of Urban and Regional Development at UC Berkeley. That study identified certain growth sectors, such as scientific instruments; generated some data on sectoral composition, identifying services and retail trade as a leading employer in Berkeley; and described the Berkeley labor force as one which is heavily weighted towards professional and scientific workers. It had a variety of interesting observations, noting that businesses in Berkeley had a much higher percentage of technical, professional and managerial workers than overall averages; that few blue-collar and construction jobs in the city were occupied by residents of the city, while service jobs had a higher proportion of Berkeley residents; and that a disproportionate amount of potential retail trade went to shopping centers outside the city.

Despite its title, however, that study had scant discussion of its implications for planning, and provided no policy directions for the city to follow. There were other studies in that series which attempted to identify certain policies and prospects for investment, such as alternative energy development, but their policy-oriented results were thin and their few recommendations not followed. This result should not be surprising: for strategic directions to turn into policy, they

should be defined under circumstances of political support for implementation, impossible under the fractious politics of the time.

The current situation has two prerequisites for strategic planning: a degree of political cohesion (hopefully), and a strongly articulated concern for economic development. Since there is little more to say about current efforts, it is my intention here to begin the discussion of the process of strategic planning--or strategic targetting, which is a more accurate and more operational concept--which can have some usefulness in the Berkeley context.

A strategic targetting process

Strategic planning involves, in the most general sense, an attempt to match resources and goals: what are the economic strengths--the comparative advantages--of a locality, and how can those strengths be put to the best possible use in achieving our economic goals--generally, jobs and revenues? The outcomes of a strategic planning process can vary from a plan to seek and encourage outside investment by marketing the community's strengths, to a program to build upon and develop resources which are already in place.

A relatively elaborate strategic planning process, taking up to a year and involving a broad range of community discussions and extensive analysis of data, may be appropriate in a slow-moving economy which is desperate to develop some realistic directions for its future development. In a fast-moving market such as Berkeley, in which one of the most important of all resources--land--is in extremely short supply and getting scarcer daily, a lengthy economic development planning process could easily be outstripped by events, and may not generate results which can be implemented. At the same time, a strategic sense of direction is necessary, so that the city is not left in a continually reactive stance vis-a-vis developers and the forces of the market.

Assuming limited time and money, the city will need to develop a process of strategic targetting which identifies key sectors which will generate the types of jobs and potential spin-offs which it desires. Such an effort does not require an analysis of the economy as a whole; rather, it tries to identify some of the vital resources of the Berkeley economy, in particular relationship to strongly held employment goals. This process will be most effective if oriented towards specific projects; if we can put together one or more projects which helps achieve the targets, it can establish the basis for on-going economic development efforts. The following are some of the issues which will need to be explored as we develop the strategic targetting process.

First, there appears to be a potential discontinuity

between resources and employment goals.' There can be no doubt that the comparative advantage of Berkeley, relative to any other community in California and to most of the world, is its intellectual labor. The university is world-class in nearly every field, and in scientific and technical fields in particular; the city is filled with writers, artists, researchers and consultants of all varieties; small presses and publishing houses have been growing rapidly; software and custom computer work has flourished, although rapidly growing companies have recently moved out for lack of space; and every day, Berkeley exports doctors, lawyers, psychiatrists, engineers and academicians to the rest of the Bay Area. Information-related activity is by no means Berkeley's only export, but these highly unique strengths, particularly in an economy which values and requires information more than ever before, cannot be denied and should be harnessed to economic development.

The discontinuity arises from our commitment to providing jobs for those most in need of stable, well-paying employment, and to unemployed minorities and youth in particular. The employment problem is a strong function of the steady decline of the East Bay Industrial Belt: from the Richmond shipyards to the Fremont GM plant, stable blue-collar industrial jobs which were unionized, well-paying and appeared secure have been declining. Plant closures, technological change, and disinvestment by multinational corporations have left the East Bay economy in a state of flux: Alameda County planning data show employment losses in some industries but new industrial development taking place in others. Presumably, we will have little problem employing our intellectual labor; it is those left behind by industrial decay which we need to focus our efforts on.

One other part of the equation which is both a constraint and a resource is Berkeley's land and location. We have tremendous locational advantages for a number of different economic directions, from retailing to international trade. Such advantages also mean constraints--the demand for land is so great as to leave little room for many of the options we would like to pursue. Targetting then becomes even more crucial, relative to making the most efficient and effective use of all available space, while limiting negative environmental impacts.

Resolving this problem involves several considerations. First, what are the occupational structures of the industries which can harness our strongest resources? Which of a range of potential information-based industries will generate stable middle-level technical work for which people can be trained? There are numerous options within the range of current Berkeley skills: bio-technology; film, video and audio production; precision, custom and prototype manufacturing; and new materials research and development are but a few examples. We will need to put together a combination of analytic data and real-world development potential to define some achievable projects.

Second, what is Berkeley's role in the East Bay regional economy, and what is the future direction of that economy? Alameda County has been promoting new kinds of manufacturing development; in many cases, new manufacturing may be too land-intensive for Berkeley's limited space. Berkeley should begin coordinate its efforts more closely with regional development efforts, whereby its focus on innovation and research becomes far more closely linked with regional development efforts. In this case, Berkeley would serve a strong technical and research role in relation to a revitalized East Bay economy, and the employment benefits would spread throughout the Industrial Belt. For Berkeley to take this role, the links to new jobs outside of Berkeley will need to be clearly established.

Once a determination of direction is made, numerous policy tools can be used for implementation. Financing can be offered for specific projects through industrial development bonds or redevelopment. Programs can be put in place which directly tap the University's capabilities, as they have with other universities, for new enterprise development. Areas can be zoned as "industrial preservation districts" with certain stipulations for the kinds of development taking place. Cooperative ventures between the city and private developers can be put together which provide access to needed facilities: e.g. cooperative use of mini-computer capability by small software developers. Live-work space can be set aside or developed directly.

Targets do not have to be set at once. As the area planning process goes on for the Downtown, South Berkeley, and West Berkeley, the analysis of particular directions and the policy tools to implement projects can be put in place. At the same time, certain projects have already begun to be discussed, such as the University's proposal for a research park at the 4th and Harrison tract. As these efforts move along, we must soon have the capability to develop some agreed-upon targets.

Sources of Development Finance

The fiscal picture facing cities has tightened considerably in the past eight years. Prop. 13 not only severely diminished potential tax revenues, but also made the issuance of new general obligation bonds impossible. Significant sources of federal and state grants have either diminished or dried up altogether. As a result, cities have had to develop creative ways of financing infrastructure for development, of financing new housing, and financing development projects to promote their economic development goals. Berkeley has substantial financing needs for capital improvements, for housing, for infrastructure, and for direct development projects. Between the needs for revitalizing worn public capital, and the need to have sources of financing available for projects, Berkeley needs to have an active development finance program. In addition, Berkeley has had a long-standing goal of trying to leverage private financing for targetted business development purposes.

Current programs

Berkeley has so far made use of several different available financing instruments. Since the 1960's, Berkeley has had a limited redevelopment program which, despite its changing nature over the years, has provided adequate tax increments to cover its obligations and to generate revenues for the redevelopment agency. Currently, it appears to be in a financially strong position, with reserves generated from surplus revenues satisfactory to issue additional bonds. The city is now considering expansion of redevelopment as a means of developing a more direct means of encouraging economic development and providing for capital improvements. The key financial advantage of redevelopment is the ability to capture the tax increment in the redevelopment area and to use that increment for tax-exempt financing. Since the discussion of the benefits of redevelopment finance has already been submitted in an initial report for the Council subcommittee on community development, a few summary notes here relative to the expansion of the redevelopment area are in order.

First, redevelopment permits direct project financing for economic development. If, for example, certain types of facilities which generate economic activity are targetted for development or rehabilitation--and there are many such which we should consider--redevelopment offers the opportunity to pay for it. Second, such infrastructure improvements as parking structures, road improvements, and sewage in the redevelopment areas can be financed from tax increments. Third, community improvements including parks and cultural facilities can be financed through redevelopment. Fourth, redevelopment financing offers the potential for housing finance and land write-downs, as in the case of Sausalito. Clearly, the Council's actions

towards expansion of the redevelopment agency offer substantial potential for a strong development finance program.

The city has recently taken steps to use creative financing methods for financing public improvements. The primary technique here involves using potential tax benefits to private investors to generate needed city funds. The city's most recent effort involves refinancing its real property in order to pay primarily for sewer repair and other capital improvements, including streets. This borrowing, for about \$28 million, follows an earlier, smaller, borrowing against the city's personal property which was used to finance corporation yard improvements. In both cases, the city is making use of the interest differential between tax-exempt issues and market rate investments. Projected state and federal changes in law may make these financial operations infeasible or even illegal, but for now the city appears to be exploiting these financially possibilities extensively.

The city is also currently exploring revising its development fee structure to offset the increased costs of infrastructure and the provision of city services to new development. The city has developed a timetable for revising development fees, which, when set, will increase the tangible and direct contribution which developers make to the city. As with redevelopment, the City Council has already received extensive information on this issue. It is worth noting here that an increase in developer fees should not be considered an alternative to other developer contributions for mitigation, employment, etc. but should set a base level for those contributions.

On a smaller scale, another source of development finance which the city has been using has been the use of revolving loan fund money for small business development. These funds have come from the Economic Development Administration (EDA) and the Community Development Block Grant (CDBG). The administrative problems of the EDA revolving loan fund are well-known to the city: of 10 loans made, four were bad and 6 are current; certain loans were disallowed by EDA, and the city has had to spend considerable time cleaning up the fund. However, despite these problems, the potential importance of maintaining a revolving loan fund should not be discounted. Small businesses, particularly in the relatively depressed areas of the city such as South Berkeley, need relatively low interest, available sources of financing.

Additional sources:

Even with the expansion of redevelopment financing, the use of creative financing and an increase in development fees, discussed above, the city has several other potential sources of development finance. One which has been entirely unutilized in

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Berkeley and offers great potential in connection with an economic development program is the use of Industrial Development Bonds (IDB's). IDB's can be used to provide financing for a private development project in which the city has a direct interest, and, because it is tax-exempt, offers a developer better financing terms than would otherwise be available. Such a financial capability offers the city a great deal of leverage in negotiating for a particular project, and provides a means of implementation of its strategic targets. Berkeley has available to it an allocation of \$5 million yearly, which is based on a per capita formula. The potential problems using these bonds are twofold. First, federal tax 'reform' could eliminate their use by the end of the year. Second, the cost of issuance is such that relatively large issues --amounts of \$3 million or more--will be the most cost-effective. This second problem, if it becomes one, can be dealt with by combining an issue with another issue from another city, as Berkeley did with Union City in its mortgage revenue bond program.

Another potential source of financing which can be used by Berkeley is the urban waterfront revenue bond. These bonds can finance a range of public improvements and potential development on the waterfront, and can give the city potential leverage over the developer by allowing the offering of favorable financial terms in exchange for developer agreements. The State of California offers this finance program through the Coastal Conservancy, which has identified the Berkeley waterfront as a prime potential recipient of these funds.

Although the days of city grantspersonship are over, a range of additional programs remain. The Small Business Administration still offers substantial potential for financing targetted businesses which need financing assistance. Private sources, such as the Local Initiatives Support Corporation, offer financing for community-based development. The Industrial Cooperatives Association has a fund for cooperative businesses, and other socially-responsible investment funds are available for support to alternative enterprises. And the State of California, Dept. of Business and Economic Development, publishes a Funding Resource Guide which lists numerous sources of state and federal financing for economic development programs. Some of these will surely be irrelevant to Berkeley's needs, but systematic exploration of financing for economic development certainly should bear some fruit in developing financial support for our programs.

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